

Message Text

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C O N F I D E N T I A L MANILA 18082

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SUBJ: THE PHILIPPINE SUGAR SURPLUS: A TIME FOR DECISION

1. RECENT TALKS OF EMBOFFS WITH VARIOUS SOURCES INDICATE THAT GOP IS MOVING TOWARD A CRUNCH ON ITS PROBLEM OF LONG-TERM SUGAR INVENTORY. OF THE COUNTRY'S APPROXIMATE ONE MILLION SHORT TON SUGAR CARRYOVER FROM THE 1974/75 MILLING SEASON, IT NOW APPEARS THAT APPROXIMATELY 450,000 TONS HAVE DETERIORATED ENOUGH TO REQUIRE REPROCESSING. HOW AND BY WHOM THAT WILL BE UNDERTAKEN IS NOW A MATTER OF VERY TESTY DEBATE BETWEEN GOP AND THE SUGAR CENTRALS.

2. THE COMBINATION OF FACTORS NOW WORKING ON PHILIPPINE SUGAR YIELDS A SOMEWHAT PANICKY SITUATION. MARKET PRICES HAVE FLUCTUATED IN THE RANGE OF 12 TO 14 CENTS A POUND, WHICH APPROACHES PRODUCTION COSTS OF THE WEAKER PHILIPPINE PRODUCERS. THE 1975/76 GROWING SEASON HAS BEEN GOOD, AND CANE SUPPLIES TO THE CENTRALS ARE THEREFORE PLENTIFUL. RAW SUGAR STORAGE CONDITIONS, HOWEVER, ARE QUITE CONSTRAINED BY THE LARGE CARRYOVER AND, WITH FEW EXCEPTIONS, THE CENTRALS ARE FORCED TO PACE THEIR MILLINGS TO ACTUAL SALES. GROWERS, WORRIED THAT IN THIS SITUATION MILLS WILL SHUT DOWN AND THEY WILL BE LEFT HOLDING THEIR CANE

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CROPS, HAVE BEEN RUSHING THEIR CANE TO THE MILLS, THUS

COMPOUNDING THE STORAGE PROBLEMS OF THE CENTRALS. A DECISION TO REPROCESS THE SUGAR THAT HAS DETERIORATED IN STORAGE OF COURSE ONLY COMPOUNDS THE MILLER'S PROBLEM WHEN HE IS ALREADY RECEIVING MORE CANE THAN HE CAN HANDLE. A FURTHER PROBLEM IS THE SCARCITY OF SUGAR FINANCING, GIVEN THAT THE PHILIPPINE NATIONAL BANK IS ALREADY HOLDING AN ESTIMATED 2.5 BILLION PESOS IN SUGAR QUEDANS. THE SUGAR MILLS AND THE GROWERS, DELIGHTED TO THIS STAGE TO HAVE HAD PNB PICK UP THE TAB BY PAYING FOR THE SUGAR NOW IN STORAGE, ARE MOST RELUCTANT TO BACKTRACK AND PICK UP THEIR SHARE OF REPROCESSING COSTS.

3. HOW THE PROBLEM WILL BE RESOLVED IS STILL ANYBODY'S GUESS. RELIABLE INDUSTRY SOURCES INDICATE THAT A SERIOUS EFFORT IS BEING MADE TO ESTABLISH LONG-TERM MARKETING ARRANGEMENTS WITH U.S. REFINERS BUT THAT TO DATE U.S. REFINERS HAVE REMAINED DISINTERESTED. LOCAL STEPS ARE BEING MADE TO MOVE THE DETERIORATED SUGAR INTO DOMESTIC INDUSTRIAL USES, BUT THERE ARE PRACTICAL LIMITS TO THAT SOLUTION. PERHAPS MORE PROMISING IS A REPORT THAT PRESIDENT MARCOS HAS SOUGHT THE ADVICE OF ESTABLISHED SUGAR BROKERS SUCH AS CZARNAKOW AND RIONDA, PUTTING ASIDE FOR THE MOMENT AT LEAST THE OBVIOUSLY UNSUCCESSFUL TACTICS OF AMBASSADOR BENEDICTO. THERE IS ALSO TALK THAT SUGAR MARKETING FOR THE PHILIPPINES WILL BE REORGANIZED TO PROVIDE MORE EXPERT TALENT, PROBABLY PIRATED FROM THE MAJOR BROKERS. IT IS PERHAPS WISHFULLY THOUGHT BY OLD LINE SUGAR INTERESTS THAT MORE RESPONSIBILITY WILL BE RETURNED TO THE PRIVATE SECTOR. NONE OF THESE ACTIONS, IT WOULD SEEM, CAN HELP VERY DRAMATICALLY IN A WEAK MARKET.

4. THE BIND FOR THE PHILIPPINE GOVERNMENT, WHICHEVER WAY IT MIGHT ATTEMPT TO TURN, IS INCREASINGLY TIGHT. THE FINANCIAL HEALTH OF THE PHILIPPINE NATIONAL BANK, HEAVILY EXTENDED ALONG WITH OTHER PUBLIC INSTITUTIONS IN THE SPATE OF CONSTRUCTION NOW UNDER WAY IN GREATER MANILA, IS OF COURSE A SERIOUS CONSIDERATION, ESPECIALLY IF THE LARGE INVENTORY NOW ON HAND MUST BE HELD BY PNB FOR ANOTHER YEAR OR SO. THE COSTS OF REPROCESSING, NO MATTER WHERE THEY FALL, ARE GOING TO BE PAINFUL, NO
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DOUBT DRIVING SOME OF THE WEAKER MILLS INTO THE MONEY MARKET TO STAY AFLOAT. EVEN THOUGH THE COST IS HIGH, HOWEVER, THE DETERIORATING STOCK IS INCREASINGLY LESS SALEABLE, AND REPROCESSING AT WHAT MAY BE A TWO TO THREE PERCENT LOSS RATE AND A SUBSTANTIAL ADDED FUEL COST IS OBVIOUSLY LESS DRACONIAN THAN WRITING OFF HALF A MILLION TONS OF SUGAR AT EVEN 13 CENTS A POUND, I.E., A LOSS OF 130 MILLION DOLLARS. THUS IT IS IMPORTANT THAT DECISIVE

ACTION ON THE DETERIORATING STOCKS WILL BE TAKEN EARLY
IN THE COMING YEAR. UNLESS THE GOP IMPROVES ITS RECENT
SUGAR POLICY DECISION-MAKING PROCEDURES, HOWEVER, THIS
SITUATION COULD GET A GOOD DEAL LESS RETRIEVABLE THAN
IT NOW SEEMS.
SULLIVAN

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